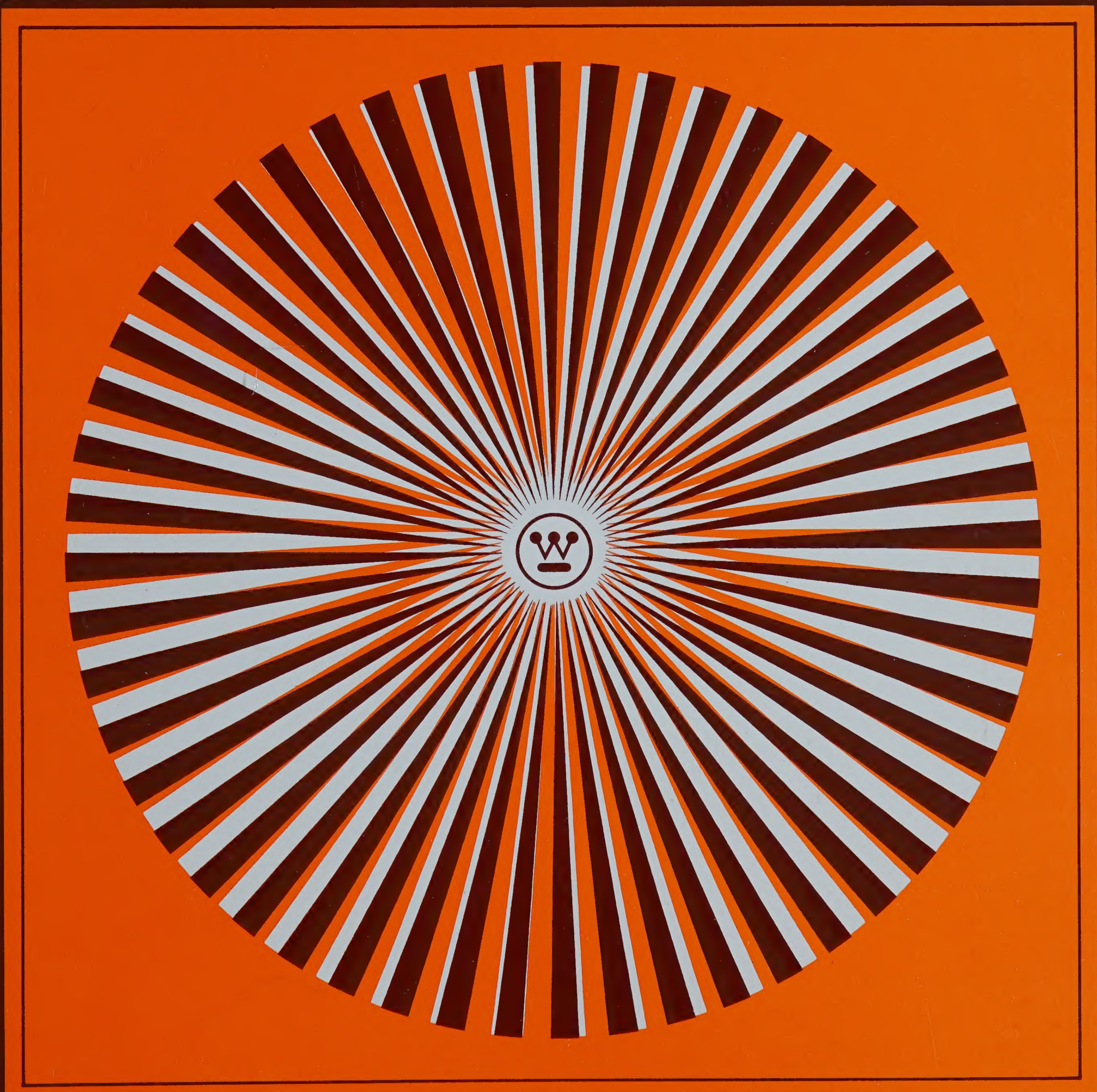
Westinghouse Canada Limited/1976 Annual Report



Directors

D. I. W. Bruce, Vice President
and Secretary
Westinghouse Canada Limited
Hamilton, Ontario

D. D. Danforth, President
Industry Products Company
Westinghouse Electric Corporation
Pittsburgh, Pa.

I. W. M. Hendry, Assistant Secretary
Westinghouse Canada Limited
Hamilton, Ontario

G. C. Hurlbert, President
Power Systems Company
Westinghouse Electric Corporation
Pittsburgh, Pa.

A. T. Lambert, Chairman
and Chief Executive Officer
Toronto Dominion Bank
Toronto, Ontario

D. C. Marrs, President
Westinghouse Canada Limited
Hamilton, Ontario

B. Matthews, Partner
McCarthy and McCarthy
Barristers and Solicitors
Toronto, Ontario

T. J. Murrin, President
Public Systems Company
Westinghouse Electric Corporation
Pittsburgh, Pa.

W. P. Pigott, President
Pigott Construction Company Limited
Hamilton, Ontario

J. W. Simpson, Director-Officer
Westinghouse Electric Corporation
Pittsburgh, Pa.

F. C. Wallace, Company Director
Toronto, Ontario

L. W. Yochum, Vice President, Finance
Westinghouse Electric Corporation
Pittsburgh, Pa.

Officers

President
D. C. Marrs

Vice Presidents
G. O. Bernhardt, Components and Construction Group
D. I. W. Bruce, Secretary
J. K. Carman, Marketing and Technical Services
J. W. Henley, Personnel
C. A. Kain, Industrial Products Group
W. C. Luton, Consumer Products Group
W. J. McNicol, Power Systems Group
J. Nairn, WESCO — Westinghouse Sales and Distribution Company
E. B. Priestner, Treasurer
J. F. Ricketts, Finance and Administration

Head Office
Hamilton

Transfer Agent and Registrar
National Trust Company, Limited
Toronto

Auditors
Clarkson, Gordon & Co.
Hamilton

Si vous désirez recevoir un exemplaire
français de ce rapport, veuillez écrire
au Secrétaire,
Westinghouse Canada Limitée,
casier postal 510,
Hamilton, Ontario, L8N 3K2

Westinghouse Canada Limited/1976 Annual Report

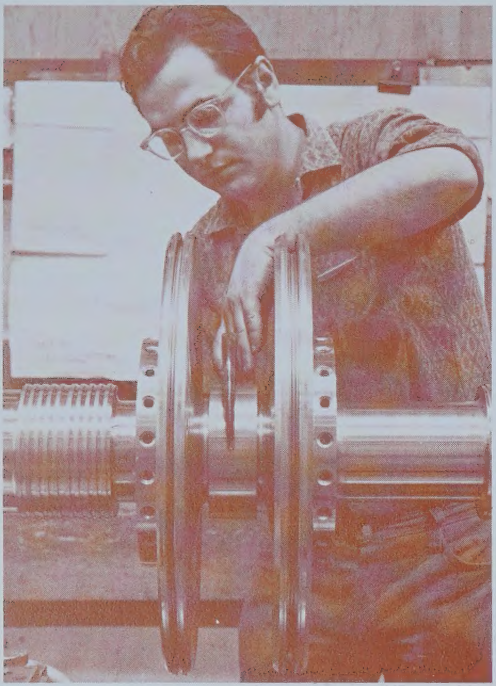
For year ended December 31, 1976.

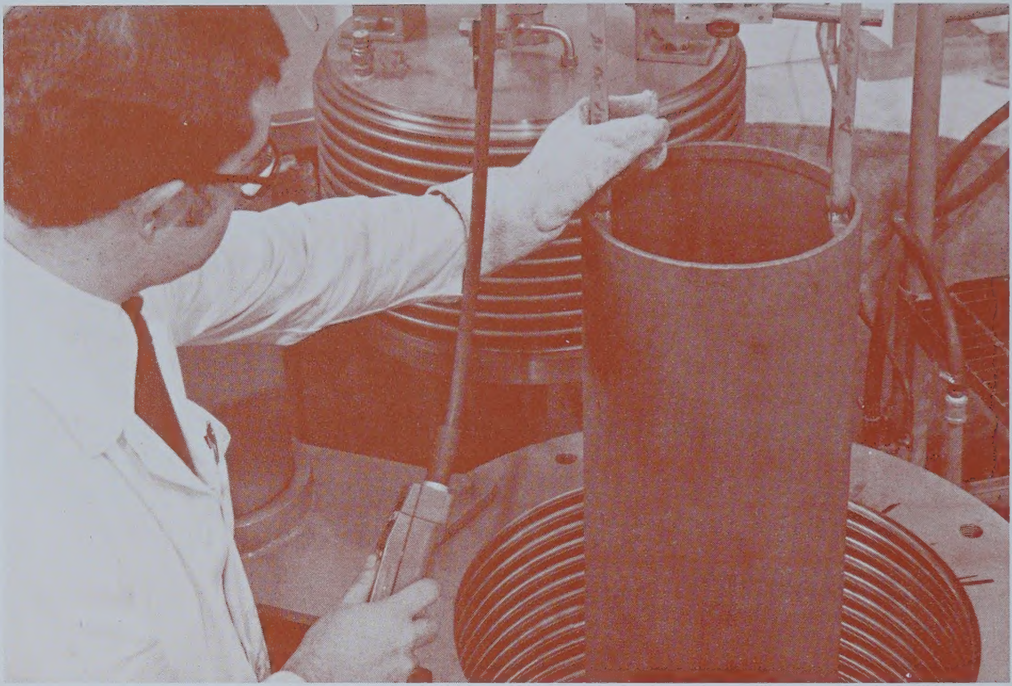
Contents

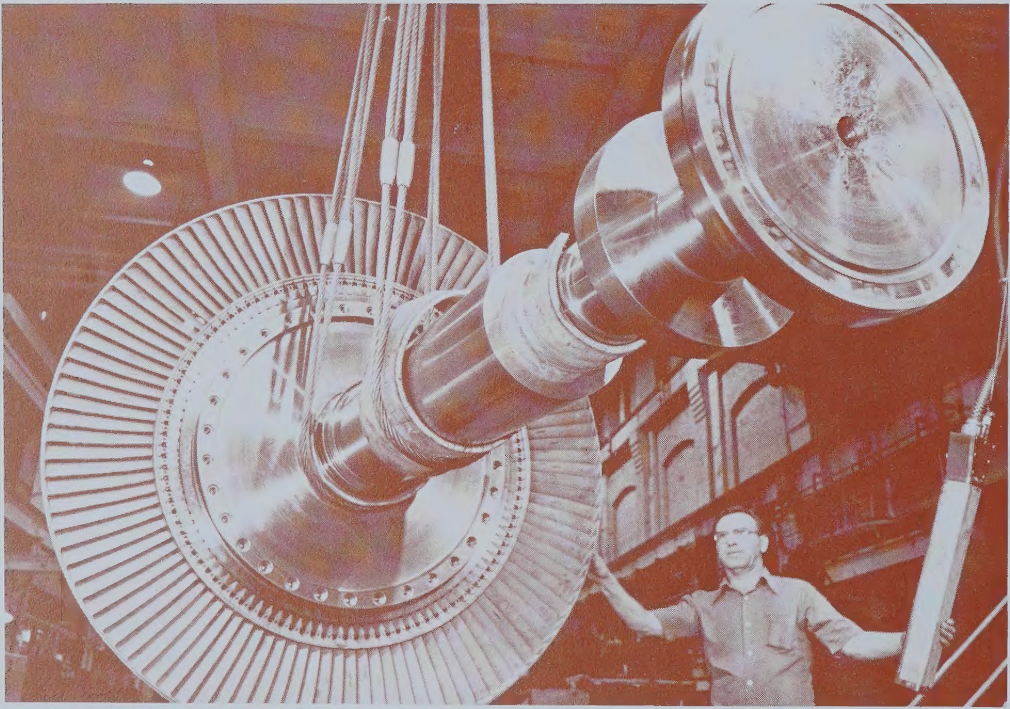
Financial Highlights

	1976	1975
Sales	$454,644,000	$451,642,000
Net income before extraordinary item	13,831,000	15,703,000
Net income	10,471,000	15,703,000
Expenditures for plant and equipment	7,747,000	6,516,000
Depreciation	5,239,000	5,339,000
Working capital	100,829,000	94,208,000
Per share:		
Net income before extraordinary item	$5.16	$5.90
Net income	$3.91	$5.90
Dividends	$1.00	$ .50

Subsequent Event
At March 4, 1977, the number of shares owned by Westinghouse Electric Corporation increased to 2,503,201 (93.3%) with 180,182 shares (6.7%) in the hands of the public.







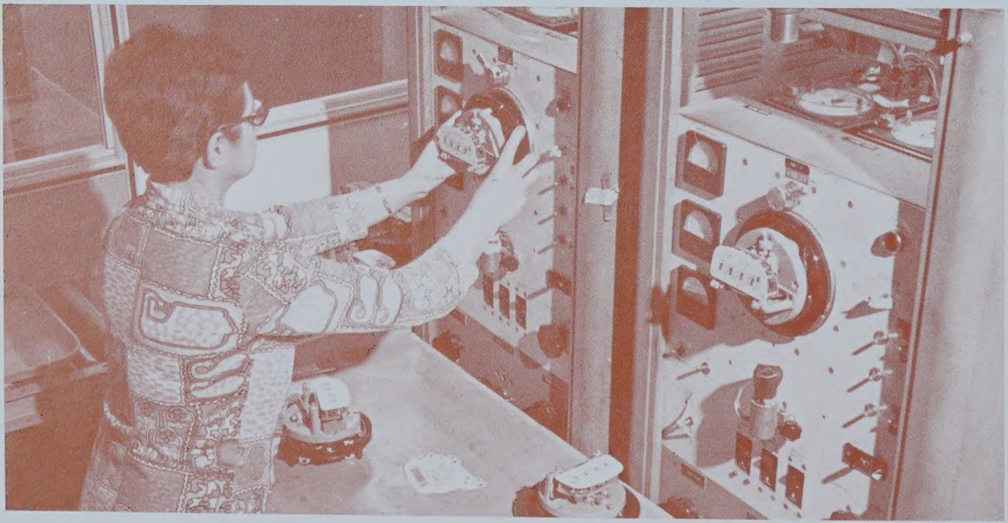
Top left: Steam turbine rotor. Production precision ensures premium performance.

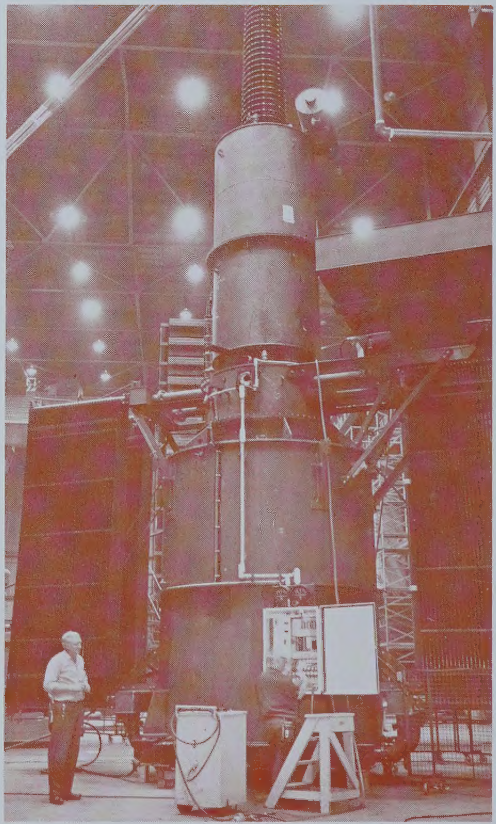
Above: Hot isostatic press. It's used in the search for new materials for new products.

Left: Rotor for new fuel-saving gas turbine.

Below left: Meters under test. Utilities count on them.

Below: Voltage stabilizer. Shunt reactor built for utility transmission system.





President's Message

To the Shareholders:

In 1976, the basic structure of the company was strengthened through a continued effort by management to select and concentrate on a number of core businesses. This selection process has positioned the company to pursue more aggressively those businesses which are considered vital to its longer term growth and profitability.

During the year the Industrial Products Group, the Power Systems Group, and WESCO Sales and Distribution Company made reasonable sales gains over 1975. However, these gains were partially offset by lower sales in the Components and Construction Group as a result of a planned shift to de-emphasize some of its product lines and to strengthen others, and partially by lower sales in the Consumer Products Group. As a result of this combination of circumstances, total sales of the company were up marginally to $454.6 million compared to $451.6 million in 1975.

Customer decisions to delay ordering of equipment for projects in both domestic and export markets prevented some potential sales from being realized during the year. At year-end, unfilled orders on the books were nine per cent lower than at the end of 1975.

Earnings, before extraordinary item, were $5.16 per share compared to $5.90 per share in 1975. The factors contributing to reduced earnings were lower prices in the electrical industrial equipment market, expenditures previously committed to maintain the viability of certain products in the household appliance business, and provision for phase-out costs of some unpromising products.

In this demanding year the contributions made by our employees were particularly noteworthy. To all the people of Westinghouse Canada I extend my thanks.

As related elsewhere in this annual report, an agreement was signed December 31, 1976 to sell the company's household appliance business. Earnings, after provision for an extraordinary capital loss of $1.25 per share (after income taxes) resulting from the planned sale of the household appliance business, were $3.91 per share.

In a somewhat broader context, the Government of Canada has issued a Working Paper entitled "The Way Ahead" which invites discussion of broad policies bearing on the future of all elements of Canadian society. The most significant feature of this paper is recognition of the fact that a continuation of the government's growing role in the economy is not appropriate for the post-controls period. The government is to be commended for recognizing the need to move from its extreme growth posture of recent years to a more moderate course.

Implicit in the paper, however, is the assumption that the services sector of the economy will continue to gain in relative importance and the goods-producing sector will continue to decline. Whether it is in this country's best interests to permit the trend away from production of goods to continue is open to question, since Canada is now supporting a higher level of services with a lower level of manufacturing activity than any other industrialized nation. More appropriate, it appears to me, would be a commitment by government to begin developing policies which will offer greater encouragement for the production of goods.

Another essential element of policy should be stronger fostering of a wider and clearer understanding on the part of the Canadian public of the danger inherent in thinking that the wage and benefit package in Canada can remain at a premium to that in the United States and other countries with whom our industry must compete.

For many years the management of Westinghouse Canada and of many other responsible companies have been directing the attention of their employees to the need for further improvement in productivity and profitability. If the government is serious in its desire to increase both reliance on and effectiveness of the market system, its policies and actions must clearly encourage public acceptance of these principles. There must, in fact, be continued public affirmation by both government and

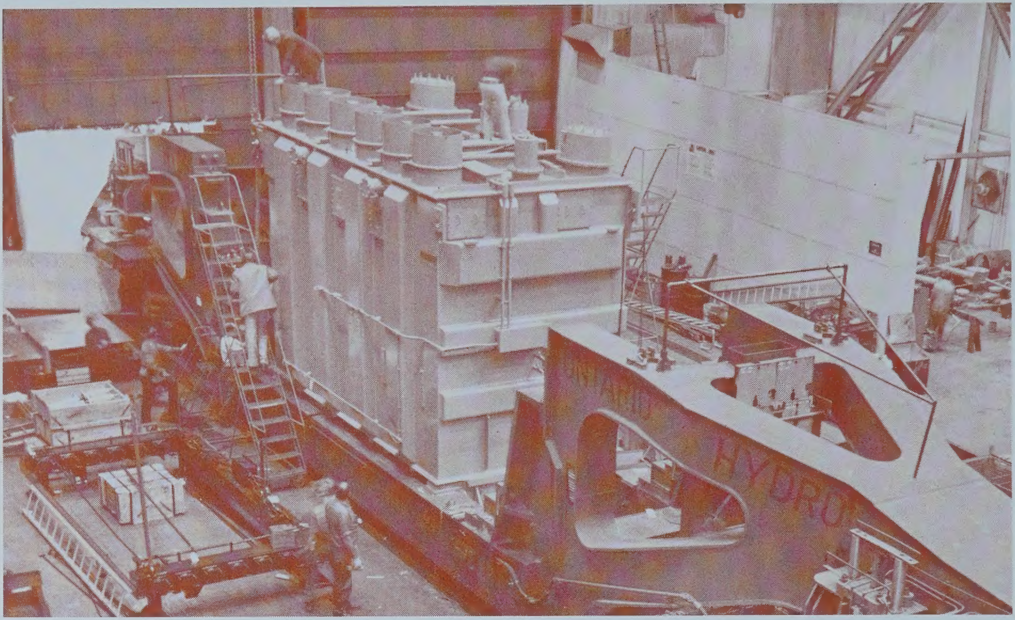
management that adequate profitability, accompanied by greater productivity, is essential to improving the competitiveness of secondary manufacturing and the investment climate in Canada.

Providing some progress can be made in overcoming the present public insensitivity to these needs, the manufacturing sector could play its part more effectively, could contribute more to Canada's economic future and could provide greater support for the social framework now in place in this country. Further, as additional progress is made in reducing the rate of inflation and in lowering the external value of the Canadian dollar, more jobs would be generated in the secondary manufacturing sector through an increase in export-related activity and through some degree of reduction in the present high levels of imported goods.

D. C. Marrs

D. C. Marrs — February 9, 1977

President



Top left: From the lamp business, products to meet different needs.

Top right: Big load. Transformer leaves plant bound for utility generating station.

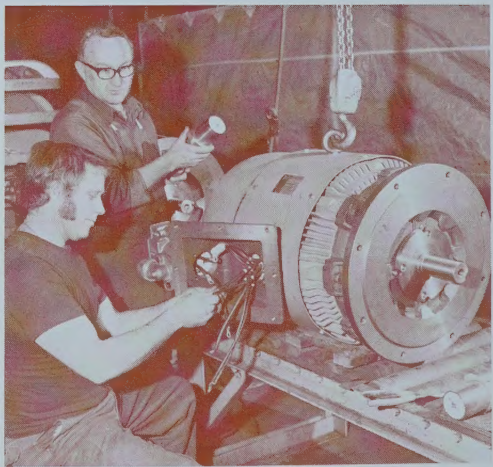
Above: A cheque and smiles for a suggestion award winner.

Middle right: Electrical Showcase '76 at Montreal, one of the stops on a cross-Canada tour.

Below: Word-processing station. New product for business equipment market.

Below centre: Learning new skills for production of nuclear fuel.

Below right: Musclepower for industry. Heavy-duty motor was designed for service in coal mines.



1976 In Review

The year saw an international environment beset with large uncertainties. Canada, like other nations, was caught between an apparent need to stimulate the domestic economy and the fear of elevating an already disruptive rate of inflation. For the company, 1976 was a time for careful measurement of strengths and reassessment of directions and objectives in all of its businesses.

Exports

Overall, total 1976 exports virtually matched the $50 million level of 1975 despite the general slowdown in world trading. Power Systems Group experienced increased competition, particularly in Third World markets, and delays in ordering by customers reduced sales of packaged gas turbine generators. However, significant shipments made to Iran and Colombia and sales of parts and field installation partially offset the reduction.

Shipments to the United States, United Kingdom, Saudi Arabia, Mexico, Taiwan and Spain reflected the improved export accomplishments of the steam turbine segment of the company. Shipments of power transformers and distribution apparatus were at about the same level as in 1975.

Industrial Products Group maintained its export sales at last year's level with the majority of shipments being switchgear and control products to Brazil and the Caribbean. Motors were shipped to the United States and substantial new orders for Middle East countries, New Zealand, Mexico and the U.S.A. were obtained for shipment in 1977.

Components and Construction Group is continuing to add new products of interest to export customers to whom price and function are the prime considerations. Commercial lighting fixtures are among these products.

Progress was achieved in expanding export sales of lamps. To capitalize on opportunities for sales of aviation lighting, a small wholly-owned subsidiary — Westinghouse Airport Systems Company — was formed in the United States.

While strong competitive forces will continue to be encountered in many nations, anticipation of an upward shift in capital investment, expectation of improvement in sluggish business conditions generally and re-start of deferred power projects as steps are taken to solve energy problems cause the company to be optimistic about its future in world markets.

Domestic Operations

Power Systems Group sales reached new levels. Strong participation in major industrial projects like the Stelco, Abitibi and Texaco expansions in Ontario and the Syncrude plant in Alberta helped make 1976 a record year for steam turbine business. Erection of a multi-million-dollar facility for testing new gas turbine models neared completion by year-end in Hamilton. Power transformer shipments, up strongly over the previous year, went to utility and industrial customers in every province. Shipments from the London, Ont. distribution apparatus plant equalled the 1975 level.

Sales of transformers employing liquids containing PCB's for cooling and insulating ended during the year. Environmental considerations dictated this decision, notwithstanding the closed-cycle nature of the use of these substances in transformers.

Sales of atomic power products approximated those in 1975 despite a lengthy strike at the nuclear fuel plant in Port Hope, Ont. and deferral by Ontario Hydro of shipments of calandria tubes. Negotiations were concluded with Hydro-Quebec for supply of fuel for the Gentilly-2 nuclear reactor through to 1980. Production of this fuel commenced at the newly-opened plant at Varennes, Que. An increased amount of contract work was conducted at atomic power facilities in Hamilton, Ont. This was concerned with testing of sub-systems and equipment under simulated conditions.

Under difficult market conditions sales of the Industrial Products Group were up in all divisions. For the apparatus service business it was a year of continuing facilities growth. New field service locations were established at Sydney, N.S., Quebec City, Que., and St. Catharines, Ont., while considerable upgrading was carried out at centres in other markets. A concerted effort to expand service activity to the marine industry was successfully launched.

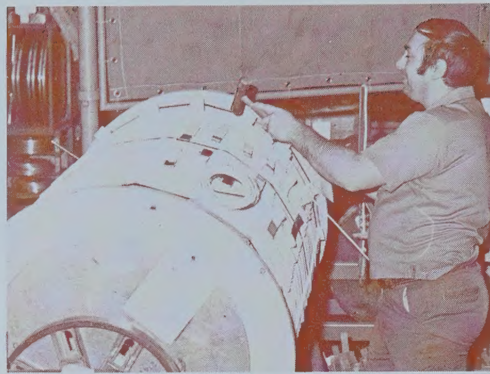
Significant switchgear and control orders included 16 static excitation systems for the Baie James hydro-electric project and a major transducer order for Hydro-Quebec. New products introduced included Seltronic breakers and two lines of wiring devices for marine applications and hospitals. Continuing improvements were made to existing lines.

A good growth pattern was evident in the industrial products business based at the Saint-Jean, Que. plant. Important orders for a new product — isolated phase bus — were obtained for the Gentilly-2 nuclear power station in Quebec and the Poplar River power development in Saskatchewan. Significant investment was made in all phases of the manufacture of residential electric heaters and a new line of commercial baseboard heaters was started.

The range of industrial motors available from the company was extended to include units significantly larger than those produced in recent years. Explosion-proof motors for service in coal mines were among the special types introduced.

Components and Construction Group markets were generally weak in 1976. This group was formed by a realignment of certain operations, leading to de-emphasis of some product lines and consolidation of others. While the short-term result was a reduction in sales, the move is designed to provide greater strength for the future.

Little market growth and strikes in the construction sector impacted adversely on sales of outdoor lighting. The market for indoor lighting was also sluggish. This condition and a four-week strike at the Cambridge, Ont. plant did not prevent sales from increasing over the 1975 level. A major success involved supply of 13,000 fixtures for the Vancouver Centre. A new marketing program aimed at the "do-it-yourself" trade was successfully introduced to several major retail chains across Canada.



Top left: Fun in the sun. Veteran employees and pensioners enjoy the annual picnic.

Top right: Winding 5,000 kva aluminum transformer, largest yet built at industrial products plant.

Above: Airfield lighting control system, developed to help improve flight safety.

Left: Rewarding experience. Two WESCO men shared year's largest Suggestion Plan award — $9700 — and congratulations from senior executives.

Below: Computer terminals destined for export.

In the Canadian lamp market, 1976 was a year of slow growth and increased competitive pressure from imports. As utility rates increased, customers sought new ways to provide adequate levels of illumination while, at the same time, reduce their energy bills. In response, a line of Econ-o-Watt fluorescents was introduced. These lamps are designed to reduce power consumption without impairing light distribution or the general appearance of a customer's lighting system. Substantial investment was made in the acquisition and installation of modern lamp manufacturing equipment at Trois-Rivieres, Que.

Rising energy costs and the uncertain future availability of some fossil fuels continued to influence sales of the versatile heat pump. In this product market, effort was brought to bear on expanding and strengthening the dealer force and developing more effective strategies and programs.

Production of electronic systems suffered a marked setback when major orders for sonar and display products failed to materialize when expected. A more promising event was the signing of an agreement to supply video display terminals to a major computer company. Measures were taken to strengthen electronic systems and components operations by phasing out unpromising products and consolidating others. Elevator operations were also realigned for more favourable results in future.

WESCO — Westinghouse Sales and Distribution Company made further strides in 1976 as sales reached an all-time high. In a somewhat weak market environment, the organization continued to earn recognition as a leader in the distribution business. A major accomplishment of the year was the booking of several million dollars worth of business for a Shell Canada project in Sarnia, Ont.

New sales centres were opened at Kitchener and Sarnia, Ont. and the assets of an independent distributor at Trois-Rivieres, Que. were acquired during the year. WESCO now has 38 outlets across Canada.

During most of 1976, the household appliance business continued to operate under circumstances of uncertain future ownership. Then on November 10, announcement was made that agreement in principle had been reached to sell the business to a new company to be created by a merger of the appliance operations of Canadian General Electric Co. Ltd. and GSW Limited. This was followed by announcement on the last day of 1976 that formal agreement had been reached for the sale of the business to the new firm — Canadian Appliance Manufacturing Company Limited — in mid-1977.

The sale includes the appliance manufacturing plants in Hamilton and Orangeville, Ont. and the consumer products service, marketing and distribution operations.

Appropriate provisions for employees concerning continuity of employment practices, the protection of benefit, security and welfare plans and the pension entitlement of transferring Westinghouse Canada Limited employees have been announced. Service with Westinghouse Canada will be counted as service with CAMCO for purposes of these plans. Westinghouse Canada pension funds will be allocated equitably for the benefit of employees and former employees of the household appliance business and for those employees where obligation will remain with Westinghouse Canada. New pension trusts will be established by CAMCO to provide for the funds to be transferred.

On January 14, 1977, Westinghouse Canada confirmed the signing of an agreement with WCI Canada Ltd., White Consolidated Industries Inc. and White-Westinghouse Corporation involving use of the Westinghouse trademarks in Canada on appliances and the supply of parts by White. Under this agreement, registration of Westinghouse Canada Limited as the user of the trademarks in Canada will be varied at June 30, 1977 by removing household appliances from the list of products for which our company is now the registered user of the marks in this country.

Rights to the use of the trademarks on the thousands of other products manufactured by Westinghouse Canada continue to reside with the company.

White is obligated under the agreement to continue to supply appliance parts, components and services to Westinghouse Canada until June 30, 1977. This effectively removed the possibility of dislocation of production that might have occurred when a previous support agreement between Westinghouse and White expired February 28, 1977, and will allow for the orderly transfer of our household appliance business to Canadian Appliance Manufacturing Company Limited by mid-year.

Other Affairs

Both public and corporate interests continued to be served by emphasis on activities dedicated to the conservation of energy, protection of the environment and efficiency of operations. In 1976, the company-wide Energy Management Program was responsible for completion of projects that will result in annual savings of ten per cent of energy costs. Annualized savings under the Total Cost Improvement Program exceeded five per cent of company sales.

In a bumper year for the Suggestion Plan, awards to employees totalled almost $113,000. Since its inception 34 years ago, the Plan has paid out over $1¼ million to employees for ideas leading to improvements in productivity, safety and other aspects of operations.

The number of lost-time accidents in 1976 was down eight per cent from the previous year and the number of occupational first-aid cases dropped by nine per cent. This marked improvement stemmed from sustained safety efforts across the entire organization.

Family Days continued to be popular with employees and their guests. Many divisions hosted these events and attendance ranged up to 2500 persons.

Employee Compensation and Benefits

Average employment in 1976 was 9,700 (10,000 in 1975). Salaries and wages for time worked totalled $117,840,800 ($110,728,600) while payment for vacations and specified holidays amounted to $13,069,400 ($12,718,600). Company payments to government programs — Canada/Quebec Pension Plan, Unemployment Insurance, Workmen's Compensation and Medicare — totalled $6,181,800 ($5,665,500) and those to company-sponsored employee pension plans were $8,705,000 ($7,532,000). Company payments for employee-benefit programs such as group life insurance, disability benefit, supplementary medical care and education assistance came to $3,407,300 ($2,926,300).

Twenty collective agreements covering some 4200 employees were concluded during the year. In 1977, 35 of 38 agreements between the company and various unions will be under negotiation.

Community Support Activities

The company continued to be responsive to the needs of many cultural, educational, charitable, health and other causes and extended tangible support to organizations of this kind. All employees were encouraged to participate actively in community affairs and to make personal contributions to the advancement of worthwhile undertakings.

Shareholders

At the end of 1976, there were 760 shareholders. Of this number, 677 were Canadian residents. Westinghouse Electric Corporation held 74.4 per cent of the issued shares.

Officers

On February 5, 1976 Messrs. G. O. Bernhardt, J. K. Carman, C. A. Kain and J. Nairn were elected Vice Presidents.

Mr. J. A. Campanaro, Vice President, Commercial Development, retired August 31, 1976 after 25 years of distinguished service with Westinghouse Canada Limited and 18 years of previous association with Westinghouse Electric Corporation.

Consolidated Statement of Financial Position

at December 31
(expressed in thousands)

	1976	1975
Current assets:		
Cash	$ 156	$ 6,202
Accounts receivable	75,792	75,539
Inventories (note 1)	90,739	85,469
Other current assets	3,045	2,673
	169,732	169,883
Current liabilities:		
Bank indebtedness	981	1,775
Accounts payable and accrued charges	61,648	55,784
Income and other taxes payable	5,636	17,449
Current portion of long term debt	638	667
	68,903	75,675
Working capital	100,829	94,208
Plant and equipment (note 1)	52,849	50,576
Investments (note 1)	693	687
Other assets	1,094	1,426
	$155,465	$146,897
Financed by:		
Long term debt (note 3)	$ 33,666	$ 34,333
Deferred income taxes	11,342	10,105
Shareholders' equity —		
Common shares (note 4)	14,947	14,742
Retained earnings	95,510	87,717
	110,457	102,459
	$155,465	$146,897

On behalf of the Board: D. C. Marrs, Director D. I. W. Bruce, Director

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position

Years Ended December 31
(expressed in thousands)

	1976	1975
Source of funds:		
Operations —		
Net income before extraordinary item	$ 13,831	$ 15,703
Depreciation	5,239	5,339
Deferred income taxes	1,237	359
Funds provided from operations	20,307	21,401
Decrease in other assets and investments	326	1,613
Proceeds from the issue of common shares	205	177
	20,838	23,191
Use of funds:		
Plant and equipment additions	7,747	6,516
Less net book value of disposals	235	593
	7,512	5,923
Extraordinary item	3,360	
Dividends paid	2,678	1,331
Sinking fund requirements on long term debt	667	667
	14,217	7,921
Increase in working capital	6,621	15,270
Working capital beginning of year	94,208	78,938
Working capital end of year	$100,829	$ 94,208

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income and Retained Earnings

Years Ended December 31
(expressed in thousands)

	1976	1975
Sales	$454,644	$451,642
Cost of sales excluding depreciation and interest	421,291	414,305
Depreciation	5,239	5,339
Interest	3,415	3,958
Income taxes — current	9,631	11,978
— deferred	1,237	359
	440,813	435,939
Net income before extraordinary item	13,831	15,703
Extraordinary item (note 2)	3,360	
Net income	10,471	15,703
Retained earnings beginning of year	87,717	73,345
	98,188	89,048
Dividends paid	2,678	1,331
Retained earnings end of year used to finance operations	$ 95,510	$ 87,717
Per share:		
Net income before extraordinary item	$5.16	$5.90
Net income	$3.91	$5.90
Dividends	$1.00	$ .50

See accompanying notes to consolidated financial statements.

Segment Income

Years Ended December 31
(expressed in thousands)

	1976		1975	
	Sales	Income	Sales	Income
Construction and Industrial	$261,199	$19,986	$255,367	$23,601
Power Systems	107,394	10,404	99,432	7,730
Household Appliance	104,476	2,009	109,902	5,035
	473,069	32,399	464,701	36,366
Elimination of inter-group sales	18,425		13,059	
	$454,644		$451,642	
Common costs, excluding interest		4,285		4,368
Interest		3,415		3,958
Income taxes		10,868		12,337
		18,568		20,663
Net income before extraordinary item		$13,831		$15,703

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1976

(1) Accounting principles and policies

The major accounting principles and practices followed by the Company are presented below to assist the reader in evaluating the financial statements and other information in this report.

Basis of consolidation:

The consolidated financial statements include the accounts of three small wholly-owned inactive companies.

Revenue recognition:

Sales are recognized when products are shipped or contracts completed, except for certain long term defense contracts where the percentage-of-completion method is used. If engineering and manufacturing estimates indicate a loss will be incurred on a contract, full provision is made for the estimated loss.

Research and development:

Research and development costs and patent costs are expensed when incurred.

Inventories:

Inventories are valued at the lower of cost and net realizable value less progress billings received on account from customers.

The accounting for inventories is principally at standard costs which are developed for individual items on the basis of current material, labour and overhead costs at normal activity levels on a first-in, first-out basis.

At December 31, inventories consisted of:

	1976	1975
	(in thousands)	
Raw materials, work-in–process and replacement parts	$ 74,714	$ 65,805
Finished goods	41,422	37,443
	116,136	103,248
Less progress billings	25,397	17,779
Net investment in inventory	$ 90,739	$ 85,469

Investments:

Investments, which consist primarily of bonds placed with customers in connection with tender requirements, are valued at the lower of cost and market value.

Plant and equipment:

Plant and equipment is recorded at original cost less investment tax credits related to plant and equipment expenditures ($333,000 in 1976).

Expenditures for maintenance, repairs and tooling are charged to operations when incurred.

Depreciation of plant and equipment is consistently applied on the straight-line basis to charge the cost of each asset to earnings evenly over its estimated useful life. Buildings are depreciated principally over 25 and 40 years and equipment over ten years. Leasehold improvements are amortized over the term of the lease and one renewal period.

The major components of plant and equipment are:

	1976	1975
	(in thousands)	
Land	$ 2,305	$ 2,260
Buildings	39,080	36,850
Equipment	72,516	68,891
Leasehold improvements	925	917
	114,826	108,918
Less accumulated depreciation:		
Buildings	16,733	15,653
Equipment	44,851	42,266
Leasehold improvements	393	423
	61,977	58,342
	$ 52,849	$ 50,576

Income taxes:

The company follows the tax allocation method of providing for income taxes, whereby amounts arising from timing differences between reported and taxable income are deferred to future periods at the current income tax rate.

Auditor's Report

To the Shareholders of
Westinghouse Canada Limited:

We have examined the consolidated statement of financial position of Westinghouse Canada Limited as at December 31, 1976 and the consolidated statements of income and retained earnings, segment income and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and changes in its

The deferred income taxes of $11,342,000, appearing in the statement of financial position, arise principally from cumulative timing differences in the depreciation of fixed assets.

Timing differences relating to current assets and current liabilities are included in the current liability for income and other taxes payable in the statement of financial position.

(2) Sale of Household Appliance business

In December, 1976 the company agreed to sell its Household Appliance business, for cash, on June 30, 1977 to Canadian Appliance Manufacturing Company Limited. Pension fund considerations are described in note 5.

In 1974 the company provided $1.2 million (after related deferred income tax recovery of $950,000) for costs that might not have been recoverable if the proposed sale of the Household Appliance business to White Consolidated Industries Inc. was not consummated. The company has provided an additional $3,360,000 (after related deferred income tax recovery of $2,640,000) in its 1976 accounts for the estimated loss on the disposition of this business.

The company's investment in the net assets of the Household Appliance business at December 31, 1976 is approximately $28 million and is comprised of:

Accounts receivable	$11,848,000
Inventories	25,926,000
Fixed assets	8,098,000
	45,872,000
Less current liabilities including provisions for loss on disposal of business net of income tax recovery	17,598,000
Estimated realizable value	$28,274,000

(3) Long term debt

Long term debt consists of:

	1976	1975
	(in thousands)	
8⅜% debentures maturing October 1, 1991 with annual minimum sinking fund requirements of $667,000	$19,333	$ 20,000
Less:		
Purchased for cancellation	29	
Balance of sinking fund requirements due within one year	638	667
	18,666	19,333
Term loan from Westinghouse Electric Corporation with interest at Canadian bank prime rate, due January 31, 1978	15,000	
Term bank loans at ½% above bank prime rate, not callable before January 2, 1977		15,000
	$ 33,666	$ 34,333

Interest on long term debt amounted to $3,262,000 in 1976 ($3,163,000 in 1975). Unamortized debenture discount and issue expenses of $366,000 are included in other assets in the statement of financial position.

(4) Common shares

Authorized — 3,600,000 shares of no par value, of which 2,683,383 are issued (1975 — 2,669,130). During the year, 14,250 shares were issued for $205,200 cash as a result of the exercising of stock options and three shares were issued in exchange for fractional shares. At December 31, 1976, there were outstanding options to purchase an aggregate of 27,000 shares (including 21,500 shares optioned to officers) at an option price of $20.90 which were granted in 1972 and expire on July 17, 1977.

The dilution effect of the outstanding stock options on earnings per share is immaterial. The reported net income per share is based on the net income and outstanding shares at the end of each month.

(5) Pension costs

Pension costs, not including charges for government pension plans, were $8,705,000 in 1976 compared with $7,532,000 in 1975. These amounts include all costs for current service and payments made to reduce the unfunded pension liability in respect of past service. The assets of the funds at cost were $79,854,000 at December 31, 1976, compared with an estimated market value of $79,464,000.

The unfunded past service liability at December 31, 1976 was $42,409,000 which is being charged to operations over the period to 1990. In determining the unfunded liability under the plans, the independent actuary used a valuation method consistent with regulations authorized under The Pension Benefits Act of Ontario.

The agreement for the sale of the Household Appliance business provides for the assumption by the purchaser of pension obligations for present employees, former employees with vested rights and pensioners of the Household Appliance business and for an equitable pro rata allocation of the pension trust funds.

(6) Anti-Inflation program

Under the federal government's anti-inflation program (scheduled to be in force until December 31, 1978) the company is subject to mandatory compliance with legislation which controls prices, profit margins, employee compensation and shareholder dividends.

(7) Statutory information

Remuneration of directors and senior officers:

(i) Remuneration of twelve senior officers including two directors	$1,070,000
(ii) Remuneration of outside directors	23,000
Total remuneration of directors and senior officers	$1,093,000

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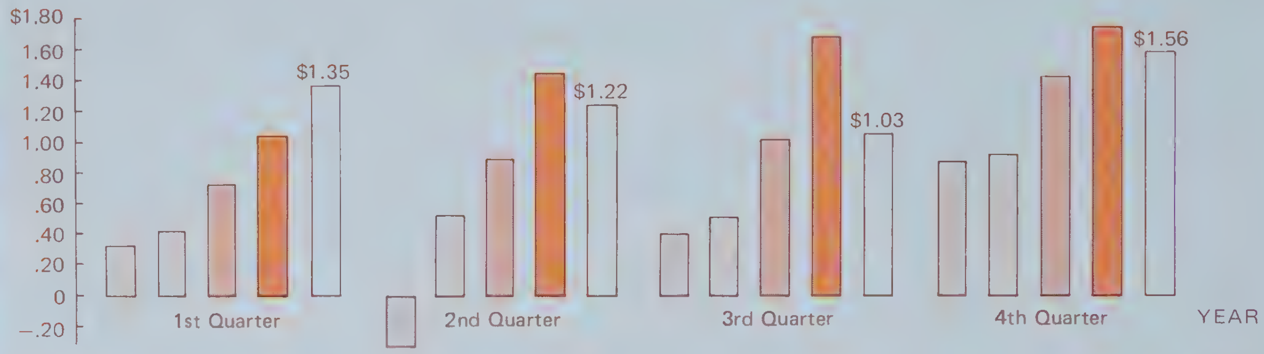
financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the statement of ten year highlights for the years 1967 to 1976 inclusive, presented as supplementary information. In our opinion, this statement presents fairly the information shown therein.

Clarkson, Gordon & Co.
Chartered Accountants.
Hamilton, Canada
January 14, 1977.

Financial Review

EARNINGS PER SHARE BY QUARTER
Before Extraordinary Item
(Dollars)

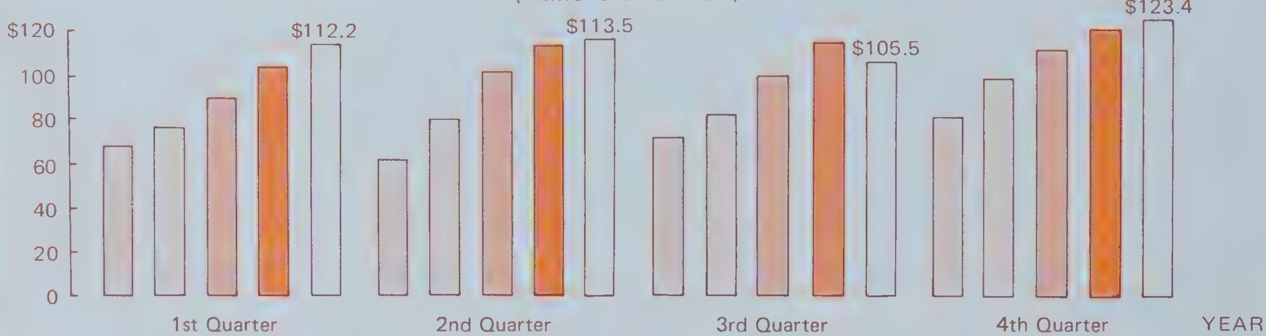


	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	YEAR
1976	$1.35	$1.22	$1.03	$1.56	$5.16
1975	1.04	1.46	1.67	1.73	5.90
1974	.74	.90	1.02	1.41	4.07
1973	.42	.55	.52	.92	2.41
1972	.33	–.32	.41	.87	1.29

Income on the sales dollar decreased from 3.5% in 1975 to 3.0% in 1976.

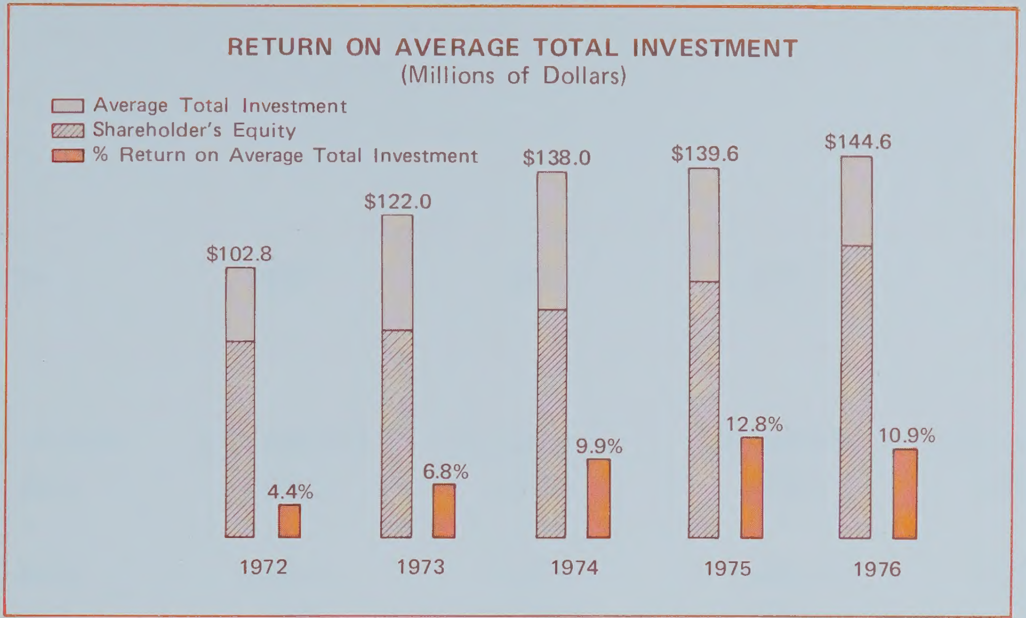
The factors contributing to the lower earnings were lower prices in the electrical industrial equipment market, provision for phase-out costs of some unpromising products and expenditures previously committed to maintain the viability of certain products in the household appliance business.

SALES BY QUARTER
(Millions of Dollars)



	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	YEAR
1976	$112.2	$113.5	$105.5	$123.4	$454.6
1975	103.8	112.7	114.5	120.6	451.6
1974	90.0	100.6	100.3	111.9	402.8
1973	75.6	79.4	82.1	99.2	336.3
1972	67.2	61.4	71.1	81.7	281.4

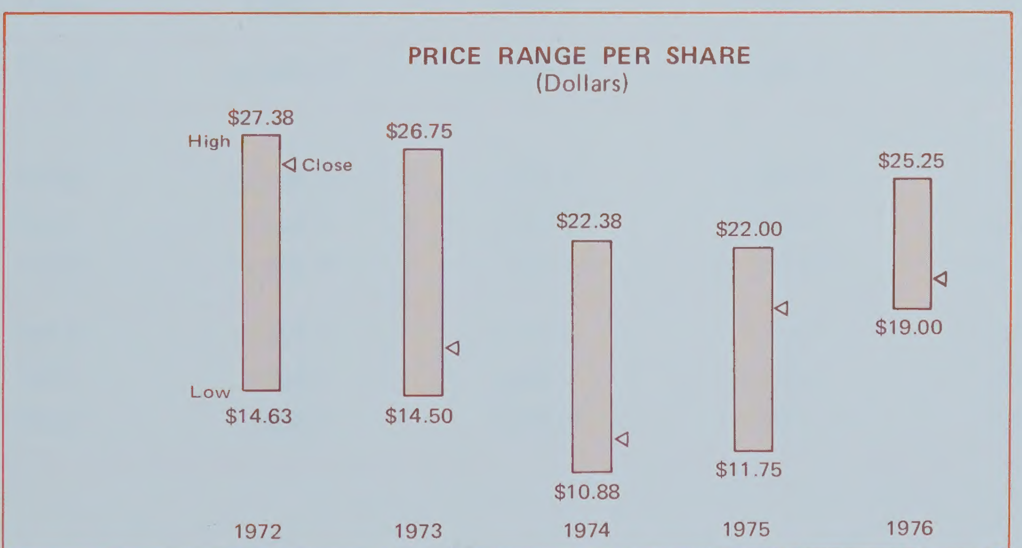
Sales in 1976 reflect the hesitation in the domestic market in the latter part of the year. Export sales contributed to the strong fourth quarter sales. The quarterly sales depict the seasonal pattern of the company's business and the effect of a strike in 1972. This pattern could change from year to year as the company's mix of business changes.



The combination of a 3½% increase in average total investment and the lower earnings for the year have resulted in an interruption of the trend of improving return on investment. Action has been taken during 1976 and is planned for 1977 to re-establish the improving trend.

Capital expenditures for the year amounted to $7.7 million, up from the $6.5 million in 1975. The 1976 expenditures were mainly for machinery and equipment and reflect the company's continuing emphasis on cost improvement.

Note:
For this calculation, return means income after tax, which is net income for the year before interest expense reduced by income tax on this "adjusted" income, over average total investment which is the sum of shareholders' equity and external borrowing for the year.



	1972	1973	1974	1975	1976
Shares Traded	367,300	221,000	113,000	159,800	167,218
Price/Earnings Multiple (at year end)	20.2	6.6	3.0	3.2	4.0

At December 31, 1976, 687,383 (25.6%) of the issued common shares are in the hands of the public and 1,996,000 shares (74.4%) are owned by the Westinghouse Electric Corporation. Of the 760 shareholders at year-end, 677 were Canadian residents.

Ten-Year Highlights

	1976	1975	1974	1973
Operating Results				
Sales	$454,644	$451,642	$402,878	$336,276
Income taxes	10,868	12,337	8,476	4,988
Net income (note A)				
— amount	13,831	15,703	10,789	6,349
— per dollar of sales	3.0¢	3.5¢	2.7¢	1.9¢
Funds provided from operations (note B)	20,307	21,401	18,285	12,568
Per Share Statistics				
Net income (note A)	5.16	5.90	4.07	2.41
Dividends	1.00	.50	.50	.50
Book value	41.17	38.39	33.14	30.06
Financial Position				
Working capital	100,829	94,208	78,938	55,907
Plant and equipment	52,849	50,576	49,992	48,939
Investments and other assets	1,787	2,113	3,726	2,231
	155,465	146,897	132,656	107,077
Financed by:				
Long term debt	33,666	34,333	35,000	20,000
Deferred income taxes	11,342	10,105	9,746	7,500
Shareholders' equity	110,457	102,459	87,910	79,577
Expenditures for plant and equipment	7,747	6,516	6,930	12,056
Common shares outstanding at year-end	2,683	2,669	2,653	2,647
Average number of employees	9,700	10,000	10,400	10,000

(Except for average number of employees and per share figures all amounts are expressed in thousands).

Notes: (A) In addition to the net income reported above, the company recorded extraordinary losses of $3,360,000 in 1976 and $1,200,000 in 1974 and extraordinary gains of $1,186,000 in 1971 and $968,000 in 1970. These represent losses of $1.25 and 45¢ and gains of 45¢ and 37¢ per share respectively.

	1972	1971	1970	1969	1968	1967
	$281,451	$267,441	$233,243	$229,130	$209,058	$201,853
	2,865	4,033	1,904	2,890	2,030	823
	3,370	4,131	1,943	2,774	2,749	1,815
	1.2¢	1.5¢	0.8¢	1.2¢	1.3¢	0.9¢
	8,212	8,361	5,512	6,664	5,875	5,576
	1.29	1.59	.75	1.07	1.06	.70
	.50	.50	.50	.50	.50	.50
	28.29	27.66	26.13	25.51	24.95	24.40
	55,408	58,290	49,650	46,633	45,023	44,086
	42,706	37,236	34,324	34,424	30,851	30,941
	2,219	2,203	1,426	2,644	2,157	1,979
	100,333	97,729	85,400	83,701	78,031	77,006
	20,000	20,000	11,845	11,845	7,949	7,949
	6,008	5,750	5,612	5,525	5,225	5,675
	74,325	71,979	67,943	66,331	64,857	63,382
	10,422	8,031	4,745	7,823	3,880	3,940
	2,627	2,602	2,600	2,600	2,600	2,598
	9,500	9,500	9,800	9,800	9,600	10,200

(B) Funds provided from operations consist of net income before extraordinary gains and losses, plus depreciation and deferred income taxes in the year.

(C) Beginning in 1970, certain expenses previously deducted from sales have been included in operating costs and expenses. The prior years' figures have been restated to reflect this change.

Westinghouse Canada Limited